G-012/CI-89-904 ORDER REQUIRING FURTHER FILINGS AND REQUIRING REFUND

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner
Patrice M. Vick	Commissioner

In the Matter of the Petition of the Department of Public Service for an Investigation of Western Gas Utilities, Inc.

ISSUE DATE: January 31, 1991

DOCKET NO. G-012/CI-89-904

ORDER REQUIRING FURTHER FILINGS AND REQUIRING REFUND

PROCEDURAL HISTORY

On November 29, 1989, the Commission issued its ORDER INITIATING AN INFORMAL INVESTIGATION OF WESTERN GAS in the above-captioned matter. In that Order the Commission ordered an informal investigation to address three main concerns of the Department of Public Service (the Department):

1. Whether Western Gas Utilities, Inc. (Western or the Company) had an adequate supply of gas for the coming heating season;

2. Whether the rates Western charged in its Purchased Gas Adjustment (PGA) were sufficiently different from its gas costs over the past year to warrant an immediate refund;

3. Whether the Company should be required to clarify its relationship with its parent company, NatroGas.

The Department's concerns arose from its work with Western throughout three previous Commission proceedings. During ongoing work with Western, the Department alleged that Western had repeatedly failed to inform the Department fully regarding its gas operations. The Company had consistently failed to submit accurate required filings regarding gas supplies, purchased gas adjustments, and other matters. The Department's concerns finally led to its petition for investigation.

On December 7, 1990, the Department filed its Report of Investigation and Recommendation with the Commission.

On December 21, 1990, the Commission sent its Notice of Commission Meeting and Request for Comments to interested parties. No written comments were received following the Notice.

On January 18, 1991, the Department submitted an amended Report and Recommendation, in which the refund amount recommended by the Department was decreased due to a change in the way the Company was billed for third-party gas.

The Commission met to consider the matter on January 22, 1991.

FINDINGS AND CONCLUSIONS

THE WESTERN OPERATION

Western is a wholly-owned subsidiary of NatroGas, Inc (NatroGas). Western, which is among the smallest utilities regulated by the Commission, provides natural gas to approximately 3,000 customers in small communities in Minnesota. NatroGas provides propane to approximately 12,000 customers located in Minnesota, South Dakota and Wisconsin.

Western purchases gas from two suppliers, Northern Natural Gas (NNG) and U.S. Gas Marketing (U.S. Gas).

RELIABILITY OF GAS SUPPLIES

BACKGROUND

Minnesota utilities are required by statute to provide safe, adequate, efficient, and reasonable service at just and reasonable rates. In order to provide the most reliable and cost-efficient service, gas utilities purchase demand volumes in correct amount and type to match their expected yearly load shape for firm customers. This process raises demand measurement and supply issues. The issue of supply includes concerns of adequacy and reliability.

DEMAND

In order to assure reliable service, utilities must estimate the amount of peak-demand volumes necessary for their firm customers' "design day", the expected coldest day of the year. Western projected a design day requirement for the 1990-1991 heating season of 4,450 Mcf per day. The Department calculated an estimated design day requirement of 5,004 Mcf for the same period. The discrepancy in measurement was a matter of concern for the Department.

SUPPLY

Adequacy

Although Western's gas supply in the heating season (on-peak) seems to match firm requirements, Western's gas supply in the non-heating season (off-peak) exceeds estimated firm requirements by 1,272. A utility's ratepayers are best served if the company purchases only the amount of firm supply which is necessary. The Department therefore recommended that Western increase its seasonal firm supplies and achieve a corresponding decrease in year-round gas supplies. This would help to eliminate the off-peak excess. At the same time, however, the Department was aware that pending Federal Energy Regulatory Commission (FERC) actions may affect the manner in which Western is purchasing gas from NNG. In light of the overall circumstances, the Commission will not at this time require specific changes of Western, but will require the Department and Western to continue to work together to achieve adequate but not excessive supply.

Reliability

The Department reported that Western is depending to an ever greater extent on U.S. Gas Marketing, its third-party supplier. Too much reliance on any one supply source spells a risk to customers of an interruption of service.

The Department also reported that Western does not have enough Firm Transportation demand volume to accompany its firm gas supplies from U.S. Gas. The Company is requesting an increase in Firm Transportation (FT) volume, but the requested increase may exceed need by 375 Mcf per day. This could prove an unnecessary expense for ratepayers. The Commission will therefore require Western to submit a filing either explaining why the additional FT volume is necessary, or reducing the request.

Western reported that it was considering dropping its Contract Demand with NNG from 638 to 10 Mcf per day. No mention of a corresponding increase in third-party firm gas supplies was made. The Department is concerned that if no corresponding increase is made, there may not be enough firm supplies to meet the Company's peak demand during the winter heating season. On the other hand, if an increase in supply is made through U.S. Gas, the Department is concerned that the Company is relying too heavily on this supplier.

In order to address the concerns raised by the Department regarding diversity of supply, the Commission will require Western to keep the Department fully informed about its plans for future gas supplies. The Commission will require full and adequate filings, more particularly described below, any time the Company plans to significantly change its supply portfolio.

PURCHASED GAS ADJUSTMENTS

The Department stated that from January 1989 to September 1989, Western had only charged and reported gas costs from NNG rather than costs from both NNG and U.S. Gas. This is contrary to Minn. Rules, part 7825.2400, which requires PGAs to reflect the weighted average cost of gas from all suppliers. Because the commodity cost of gas from NNG was higher than the cost of gas from U.S. Gas during this time, Western as a result had overcharged its customers.

Minn. Rules, part 7825.2920 requires utilities to refund overcollections due to purchased gas adjustment errors. The Department has determined that a $32,964.38 refund is due from Western to its customers. The Commission finds that this amount, plus interest, must be paid by Western. The Commission will require Western to implement the refund, and to report to the Commission regarding the payment of the refund. The Company has agreed to the refund.

AFFILIATED INTERESTS

Because Western is a wholly-owned subsidiary of NatroGas, the two companies are governed by the affiliated interest statute and rules, Minn. Stat. § 216B.48 and Minn. Rules, parts 7825.1900 - .2300. These sections require specific filings from utilities in affiliated interest relationships. They also provide that the Commission must give prior approval to any contracts or arrangements regarding management and other services between a public utility and an affiliated interest.

Western and NatroGas share the same office space, office employees, management and computer facilities. Despite this fact, Western has not submitted any contract or agreement between itself and NatroGas for Commission approval. The Commission will therefore require Western to submit a filing regarding shared services between Western and NatroGas. The Commission will also require Western to provide, as part of its next rate case, detailed calculations to justify the reasonableness of shared service items and propane purchases from NatroGas.

Western Gas has, on several occasions, provided propane to its customers prior to hooking them up to its natural gas distribution system. Western obtains the propane from either NatroGas or NatroGas' supplier, and bills the customers directly for their propane use. The price Western charges its propane customers has been the same as what NatroGas would have charged these customers. To ensure that Western's natural gas customers are not subsidizing the Company's small propane operation, the Commission will require Western to submit a cost separation filing more specifically described below.

DISCREPANCIES IN VOLUMES BOUGHT AND SOLD

Theoretically, the volume of firm gas a utility purchases should match the volume of gas it sells, allowing for some pipe losses. During its investigation, however, the Department became aware of frequent discrepancies in Western's sales and purchase volumes. The Commission agrees with the Department that such discrepancies are a cause for concern. The Commission will therefore require the Company to file certain reports regarding its monitoring and measuring methods, in an effort to stem further discrepancies.

CONCLUSION

The Commission is aware that Western is a small utility and that at times its personnel are hard-pressed to conform to regulatory requirements. The Commission has no wish to discourage small utilities or to make life harder for them.

The Commission, however, must conform to statute and rule, and so must the utilities the Commission regulates. Rules regarding reporting requirements are meant to ensure fairness and openness for ratepayers, utilities, and regulatory agencies. Western has a long history of failing to abide by reporting requirements. The Department has worked very hard to assist the Company in every way possible to ease the reporting burden. It is time for the Company to devote its resources to a systematic compliance with requirements of statute and rule. The Commission and the Department will do everything they can to cooperate with the Company. The Company's upcoming rate case may also provide a forum in which many of the concerns discussed above are resolved.

ORDER

1. Western shall work with the Department in determining appropriate demand levels.

2. Western shall report to the Department each time the Company plans to do the following:

   a. Change its level of demand volumes, including firm transportation volumes, as required by Minn. Rules, part 7825.2910, subpart 2;

   b. Add or delete a supplier;

   c. Change its level of firm gas to accompany FT demand volumes; or

d. Otherwise significantly change its supply portfolio.

3. Within 30 days of the date of this Order, Western shall file an explanation why its planned addition of FT is necessary or shall decrease the multiyear and Marystown FT requests by 350 Mcf per day and 25 Mcf per day, respectively.

4. Within three months of the date of this Order, Western shall complete the refund of the money which it overcollected through the PGA from January to September 1989, in the amount of $32,964.38, plus interest. Western shall file a refund report, including the amounts refunded and the interest rate applied, within 30 days of completing the refund.

5. Within six months of the date of this Order, Western shall file detailed agreements specifying shared services between Western and NatroGas.

6. In its next filed rate case, Western shall provide detailed explanations and calculations to justify the reasonableness of shared service items and propane purchases from NatroGas.

7. Within six months of the date of this Order, Western shall file a study showing the cost separation of Western's regulated and unregulated services. Said filing will not be necessary if within six months NatroGas begins to make the propane sales directly and eliminates Western from the transaction.

8. Within 30 days of the date of this Order, Western shall file a proposed method for the Company to use to investigate and monitor meters and other possible causes of the past discrepancies between gas volume purchases and sales. Within six months of the date of this Order, Western shall file a final report showing the cause of the discrepancies.

9. Within three months of the date of this Order, Western shall file a report stating a projection of its demand levels and supply and transportation contracts for 1991 off-peak usage and the 1991-92 heating season. The report shall include the justification for projecting these demand levels and the supplies contracted for.

10. Within three months of the date of this Order, Western shall file a report with the Commission stating a plan to incorporate compliance with Commission rules in its operating policies and procedures. In particular, the report shall demonstrate that the PGA will reflect the

Company's current cost of gas and that the Company will seek Commission approval prior to implementing changes in demand levels.

11. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)